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SENSITIVE

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TAGS: BEXP EIND EINV FR IT ETRA

SUBJECT: COMMERCIAL ADVOCACY SUCCESS STORY -- GENERAL ELECTRIC SALE OF NAVAL FRIGATE PROPULSION SYSTEMS TO FRENCH/ITALIAN CONSORTIUM

SUMMARY

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¶11. (SBU) After two and a half years of advocacy by Embassy Paris, and considerable efforts on the part of Embassy Rome, General Electric (GE) has finally signed a contract to supply propulsion systems to the Franco-Italian Multi-Mission Frigate (FREMM) program. Letters from President Bush, Secretary of Commerce Gutierrez and Secretary Rice helped seal the USD 200 million transaction. The contract is expected to produce up to another one billion dollars in GE sales through a worldwide partnership created under the agreement. Close interagency coordination in Paris, Rome and Washington made this commercial advocacy success possible. The deal is also tangible evidence of the value of our American Presence Post (APP) concept. END SUMMARY.

BACKGROUND

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¶12. (SBU) GE first approached Embassy Paris in June 2003 about assistance in competing for this contract, which is pursuant to a joint naval shipbuilding program that will supply 17 frigates to France and 10 to Italy. The primary constructor of the French vessels is the Directorate of Naval Construction of France (DCN). GE's competitor for the supply of the propulsion systems was Rolls Royce (RR) of the UK. GE, in order to add a European dimension that was necessary to gain credibility in the process, partnered with Avio of Italy so that Rolls Royce could not overplay the European nature of its bid and to give the Italians reason to support GE. At one point in the fall of 2003, GE had virtually thrown in the towel, perceiving that RR simply had too much political clout in its favor and that the consortium would choose the all-European option. At that point, the Embassy began its efforts to stop the march toward a selection of RR.

¶13. (SBU) The impetus initially came from a State Department Foreign Service National (FSN) employee in the American Presence Post in Rennes, in which district lies the headquarters of DCN. The FSN had developed close contacts in DCN as they attempted to find American suppliers in their efforts to become a truly competitive shipyard after they were hived off from the French Ministry of Defense into a separate corporation looking to supply parties outside of France. Former Amb. Leach visited DCN in February 2004 at APP Rennes' suggestion, and pressed GE's case with DCN officials.

¶14. (SBU) The Commercial Service of the Dept. of Commerce (FCS), the Embassy Economic Section and the Office of Defense Cooperation (ODC) then began a program of visits to French military authorities. They also coordinated efforts of GE France, GE U.S., the Dept. of Commerce's Bureau of Industrial Security, and the U.S. Dept. of Defense to build an advocacy strategy. Embassy Paris assisted GE throughout the campaign, directly lobbying the Defense Minister and other high Ministry and government officials at critical junctures when RR mounted a counterattack. The UK government involvement went to the very highest levels, with Prime Minister Blair intervening personally on several occasions.

¶15. (SBU) GE's propulsion units were significantly cheaper (by half) than RR's, partly because virtually all of their R&D costs had been recovered through sales of hundreds of units of earlier versions of the veteran turbine they offered to FREMM, while RR was building in the cost of its R&D for a brand new, unproven engine. RR relied on its "European" stamp, claimed a superior industrial participation (offset) program, and raised the specter of U.S. export controls. FCS and ODC intervened regularly to coordinate responses to these tactics, in close collaboration with GE.

¶16. (SBU) When the Embassy discovered that British Prime Minister Blair was personally sending letters to French President Chirac and Italian Prime Minister Berlusconi, Embassy Paris and Embassy Rome worked with U.S. agencies to

obtain letters of support from Secretary Rice and Secretary Gutierrez. Finally, the persistent intervention of Prime Minister Blair led to the request for a presidential letter of support, which was signed by President Bush in August 2005.

17. (SBU) COMMENT. The GE case highlights what can be achieved when agencies collaborate closely, and points out the value of judicious use of Presidential involvement. Careful interagency coordination between three different agencies at Embassy Paris, and close cooperation with colleagues at Embassy Rome and in the Departments of Commerce, Defense, State and USTR made this a success. The President's personal involvement in writing to French President Chirac and Italian Prime Minister Berlusconi was critical. Finally, none of this would have occurred with the strong on-the-ground ties forged by APP Rennes with officials of the French primary constructor, DCN.

STAPLETON